

**CONFIDENTIAL**

**Nº 79**

**ECONOMIC INTELLIGENCE REPORT**

**REORGANIZATION OF  
THE STRUCTURE OF ECONOMIC MANAGEMENT  
IN THE USSR  
1 JULY 1957**



**CIA/RR 121  
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**CENTRAL INTELLIGENCE AGENCY  
OFFICE OF RESEARCH AND REPORTS**

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(ORR Project 41.1762)

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REORGANIZATION OF THE STRUCTURE OF ECONOMIC MANAGEMENT  
IN THE USSR\*  
1 JULY 1957

Summary

The reorganization of economic management in the USSR on 1 July 1957\*\* had as its chief objective the elimination of many weaknesses which hindered industrial growth. Deficiencies of this system resulted in ill-considered decisions by central officials, confusion and delay in decision-making because of nondelegation of authority, and restrictions on initiative and resourcefulness in lower level management.

The reorganization abolished 25 industrial and construction ministries and reconstructed several others at the central level; abolished a number of ministries at the republic level; altered the planning organization by abolishing the State Economic Commission (Gosekonomkomissiya) and strengthening and expanding the State Planning Committee (Gosplan); added to the authority and responsibility of the Soviet republics and local governments (krays, oblasts, and cities); and established 105 regional councils to administer directly most industry and construction throughout the country.

Several problems have arisen as a result of the reorganization. Fewer officials of the abolished Moscow ministries have reported for work in the regional economic councils than were expected. This reluctance partly defeats one purpose of the reorganization -- to transfer segments of the central bureaucracy to the various regions. In addition, instances of autarky have occurred in regional organization. Supplies have been hoarded by some regional organizations, and certain regions have failed to cooperate with the new scheme by not shipping needed goods to other regions.

Production and marketing problems have also resulted from the reorganization. Attempts by central and republic officials to retain

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\* The estimates and conclusions contained in this report represent the best judgment of ORR as of 15 November 1957.

\*\* See Figure 1, following p. 2.

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central pricing and marketing are in conflict with some reported concessions made in the direction of limited decentralization of pricing and marketing. Greater authorization for local officials to make planning decisions in investment and production has weakened central planning perhaps considerably more than was intended by Soviet leaders.

The reorganization so far is not without partial success. The delegation of some authority from the old Moscow ministries to the regional councils has demonstrably facilitated decision-making. Solutions to a number of problems that would have been unduly delayed because of the time required for referral to Moscow have been arrived at in perhaps record time by various regional economic councils. Steps have now been taken to meet the problem of autarky within the new regions. Fines have been imposed on errant plant directors, and the chairman of at least one economic council has instructed all subordinate enterprises to fulfill orders from outside the region before filling any local orders.

The new economic structure no doubt will facilitate Soviet industrial production, but to what extent cannot yet be determined. Nevertheless, problems related to the new organization are not assured of solution, and successful coordination of the multitudinous parts of the economic-managerial apparatus may be very difficult, if not impossible.

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I. Introduction.

On 10 May 1957 the Supreme Soviet of the USSR decreed a basic change in the organization of the managerial apparatus of the country. 1/\* Before this time the Soviet economic organization consisted of a large number of specialized national ministries, main administrations, and departments which managed enterprises on a functional basis. The Ministry of the Petroleum Industry, for example, supervised all enterprises producing oil. The chief advantage of this functional type of management had been to establish, within a short period of time, key branches of heavy industry and

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## SOVIET MINISTRIES BEFORE AND AFTER REORGANIZATION

Figure 1

1 JANUARY 1957	
ALL-UNION	UNION REPUBLIC
Transportation (Railroads)	Internal Affairs (MVD)
Transport Construction	Defense
Maritime Fleet	Foreign Affairs
Foreign Trade	Communications
Aviation Industry	Health
Defense Industry	Higher Education
* General Machine Building	Culture
Shipbuilding	Finance
Construction and Road Machine Building	State Control
Heavy Machine Building	Construction of Metallurgical and Chemical Industry Enterprises
Transport Machine Building	Construction
Machine-Tool Industry	City and Rural Construction
Automobile Industry	State Farms
Tractor and Agricultural Machine Building	* Agriculture
Instrument Building and Means of Automation	Grain Products
Machine Building	Internal Trade
Medium Machine Building	Food Industry
Construction of Electric Power Stations	Meat and Dairy Industry
* Electric Power Stations	Fish Industry
Electrotechnical Industry	Light Industry
Radiotechnical Industry	Ferrous Metallurgy
Construction of Petroleum Industry Enterprises	Nonferrous Metallurgy
Chemical Industry	Coal Industry
	Construction of Coal Industry Enterprises
	Petroleum Industry
	Geology and Mineral Conservation
	Construction Materials Industry
	Timber Industry
	Paper and Wood Processing Industry

1 JULY 1957	
ALL-UNION	UNION REPUBLIC
Transportation (Railroads)	Internal Affairs (MVD)
Transport Construction	Defense
Maritime Fleet	Foreign Affairs
Foreign Trade	Communications
Aviation Industry	Health
Defense Industry and General Machine Building	Higher Education
Shipbuilding	Culture
Electric Power	Finance
Radiotechnical Industry	State Control
Chemical Industry	Agriculture and State Farms
	Grain Products
	Internal Trade
	Geology and Mineral Conservation

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\*Merged into one Ministry as of 1 July 1957



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to operate them as integral units of production. This type of apparatus was most useful in industrializing the economy and guiding it, in Soviet terms, along "socialist" paths. 2/ There were, however, many inadequacies in the system as it developed throughout the years.

Economic organization in the USSR, up to the time of the announced reorganization of May 1957, focused chiefly on three principles of management: (1) highly centralized decision-making in most spheres of operations, (2) detailed central planning, and (3) direction of factories by functionally specialized ministries. The first principle resulted in the growth of a considerable bureaucracy in Moscow.\* The central bureaucrats made most of the important operational decisions for all subordinate organizations regardless of their location. One frequent result of such centralization was that problems were mishandled. Furthermore, the initiative and resourcefulness of lower level managers were rarely encouraged or relied upon.

Detailed central planning included making investment decisions and determining allocations of resources and commodities by central officials for the entire economy. Central planning, too, had limitations. Planners at the center could not decide intelligently all questions of investment, procurement, production, and sales for products of factories many hundreds of miles distant, nor could they make provision beforehand for the inevitable complications which were certain to occur after the plan had been determined. Moreover, planning was a slow and cumbersome process, with the result that the preparation of annual and 5-year plans was delayed unreasonably. Finally, lower level officials lacked the clear-cut authority to make the changes that were occasionally required in the quarterly plans.

The management of factories through functionally specialized ministries, although useful in industrializing the economy, became increasingly unwieldy and overly expensive to operate as a more complex state of industrialization was achieved. The orientation of the economy was functional, not regional. The resultant vertical integration (in which enterprises were limited to dealing chiefly with their superior administrative echelons) often prevented

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\* See Figures 2 and 3, following p. 4.

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mutually beneficial cooperation between factories of a given area or region which belonged to different ministries. Thus fabricating plants frequently produced virtually all their own components. This procedure stemmed from uncertainty caused by irregularities in supplies of the components in spite of the fact that many of them could have been purchased from other plants at less cost. Extensive crosshauling of materials and commodities can be attributed in part to the lack of a regional approach to production problems. There was little deliberate effort to satisfy the industrial and construction needs of a given region with the materials available within that region. In addition to being unwieldy and expensive, the old managerial system slowed down and sometimes hindered regional planning and prevented rapid, knowledgeable decision-making. The reorganization of May 1957 was an attempt to solve these basic shortcomings in Soviet economic management.

The new organizational structure (horizontal organization) embodies a fundamental rethinking on the part of the Soviet leaders of the precise role which various levels of economic management can perform efficiently and of the limits to which the management of the economy can be centralized.

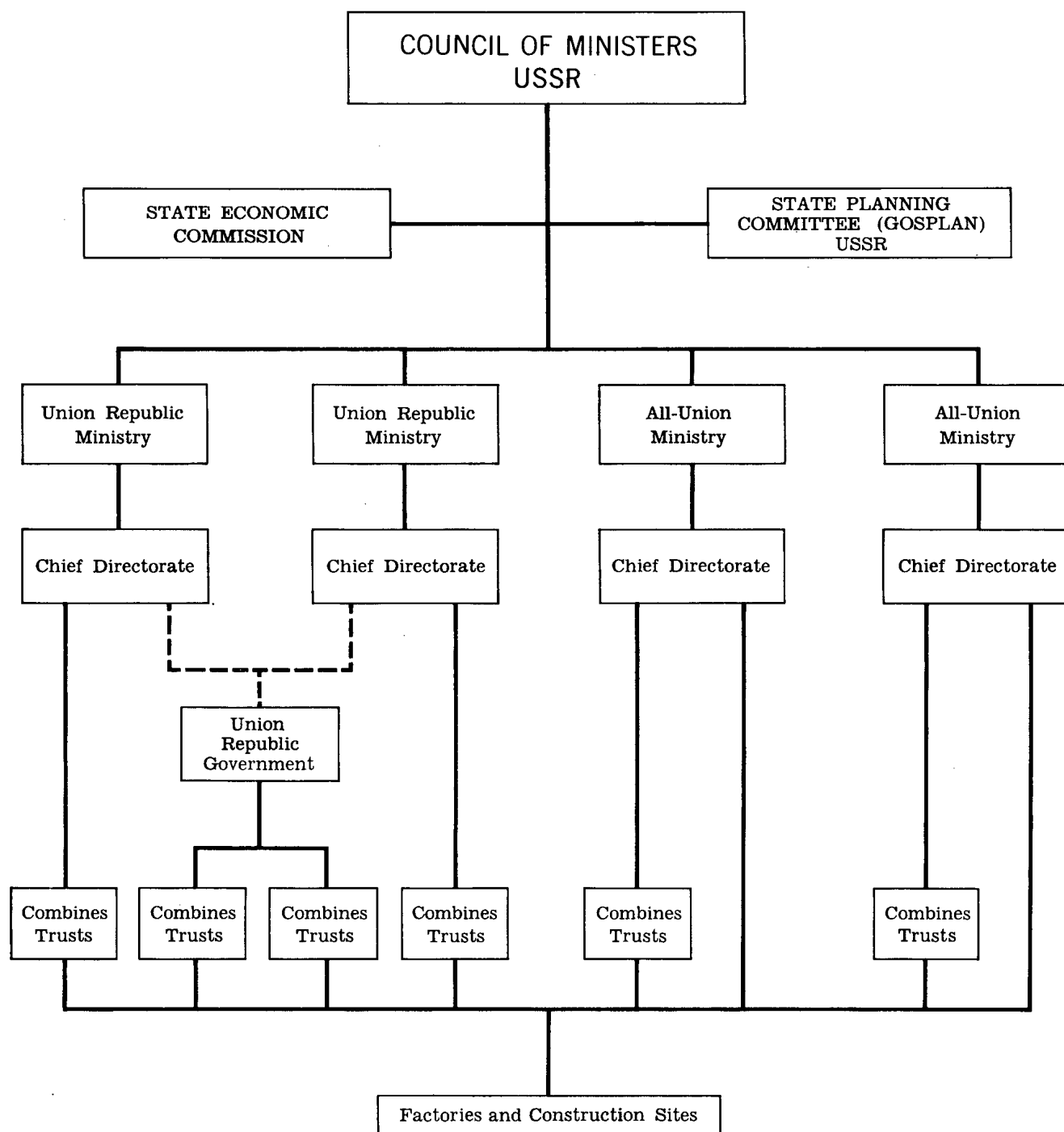
II. Highlights of the Reorganization.

The Soviet decree of 10 May 1957, which went into effect on 1 July 1957, abolished the State Economic Commission (Gosplan) and 25 industrial and construction ministries at the central level and replaced the State Committee on Technology (Gostekhnika) with a smaller committee. The new law also reorganized the structure and functions of the State Planning Committee (Gosplan), strengthened the economic managerial authority of the 15 union republics, and created 105 economic regions throughout the country to manage directly most industrial enterprises and construction sites.

The central economic ministries retained under the new law are the Ministries of Geology and Mineral Conservation, the Chemical Industry, the Radiotechnical Industry, Medium Machine Building, Shipbuilding, the Aviation Industry, Internal Trade, Foreign Trade, Grain Products, the Maritime Fleet, Transport Construction, and Transportation. In addition to these ministries, six others were merged as follows: the Ministry of Defense Industry and the Ministry of General Machine Building into the Ministry of Defense Industry

Figure 2

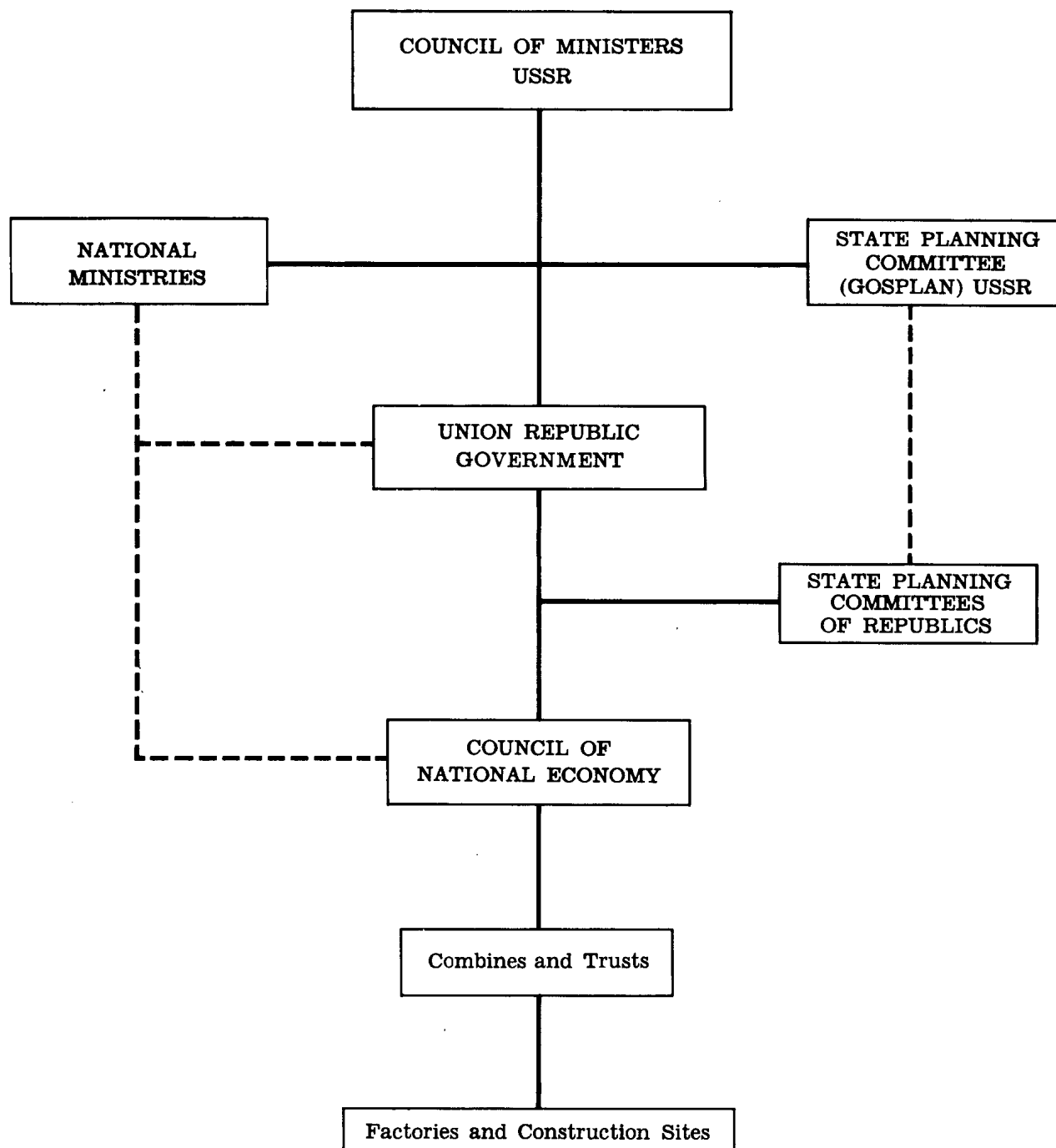
## ORGANIZATION OF SOVIET INDUSTRY 1 JANUARY 1957



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Figure 3

## ORGANIZATION OF SOVIET INDUSTRY 1 JULY 1957



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and General Machine Building, the Ministry of Electric Power Stations and the Ministry of Construction of Electric Power Stations into the Ministry of Electric Power Stations, and the Ministry of Agriculture and the Ministry of State Farms into the Ministry of Agriculture. Two new committees were attached to the Council of Ministers of the USSR: the Committee for Broadcasting and Television and the Committee for Cultural Relations with Foreign Countries. Finally, the Main Administration for Economic Relations was transformed into the State Committee for Foreign Economic Relations.

The ministries retained appear to be those which are central or national in orientation (such as Transportation) or of special strategic significance (such as Medium Machine Building, which deals with nuclear energy). Two of the new committees, the Committee for Cultural Relations with Foreign Countries and the State Committee for Foreign Economic Relations, have no doubt been established to develop the Soviet propaganda and economic offensive both inside and outside the Sino-Soviet Bloc.

The new economic regions will control most industrial enterprises and construction sites through their regional councils (councils of national economy). The 105 regions\* will be distributed as follows: 70 in the RSFSR, 11 in the Ukrainian SSR, 9 in Kazakh SSR, 4 in Uzbek SSR, and 1 for each of the 11 remaining union republics. The 105 regions with their 105 councils have been set up and are now functioning. A meeting of all economic councils in the RSFSR has been held to discuss current problems.

Experienced men have been appointed to head the councils. For example, the head of the regional council of the Belorussian SSR is a former deputy minister of the Ministry of Tractor and Agricultural Machine Building of the USSR. Two other former deputy ministers of the USSR have been appointed to this council. The first group of engineers and specialists arriving in Kazakhstan to staff the economic councils of this republic apparently came from abolished central ministries in Moscow.

As a part of the current reorganization, the Central Statistical Administration is setting up 107 so-called machine calculating stations corresponding roughly to the 105 new administrative regions (with, perhaps, 2 additional stations in Moscow). Some 2,000

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\* See the map, Figure 7, inside back cover.

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calculating-analytical machines (presumably perforators, sorters, tabulators, and summators) have been manufactured for use in these new stations. Beginning with the statistical accounts for June 1957, the Central Statistical Administration now has sole responsibility for the central receipt and processing of data from industrial enterprises and construction projects, which no longer transmit the data to individual ministries and departments.

The new system, involving the elimination of intermediate collection points, presumably will achieve greater speed and economy in the handling of statistical reports. Moreover, the Central Statistical Administration is reportedly working on a reduction and simplification of its accounts, which would facilitate greater centralization of accounting controls and which would seem essential in any attempt to retain central planning while introducing a measure of operational decentralization of industry. Furthermore, the new system of more centralized and uniform statistical control under the Central Statistical Administration will ultimately make possible the installation of a still more mechanized system for the processing of data, with a resultant reduction in processing time and an increase in managerial efficiency.

III. Structure of New Economic Organization.

The Soviet decree of 10 May 1957 required officials to carry out the transition from specialized ministerial management to that of management "according to the territorial principle" -- that is, organizational administration based on economic regions. <sup>3/</sup> The new system will be regionally organized, whereas the older system was functionally organized.

A. Central Economic-Managerial Apparatus.

The size of the Council of Ministers of the USSR was somewhat reduced by the new decree and its makeup notably altered.\* As of January 1957 the Council included 65 members. After 1 July it was reduced to approximately 49 members. A number of seats were eliminated from the old Council by abolishing some ministries. In the new Council the head of the Central Statistical Administration now has a seat, and so has the chairman of the newly formed Scientific-Technical Committee. In addition, deputy chairmen and heads

\* See Figure 4, following p. 6.

Figure 4

## STRUCTURE OF THE COUNCIL OF MINISTERS OF THE USSR

1 JANUARY 1957	
CHAIRMAN	
FIRST DEPUTY CHAIRMEN (5)	
DEPUTY CHAIRMAN (1)	
SOVIET MINISTERS (All-Union and Union Republic)	CHAIRMEN OF:
	Gosplan
	Gosbank
	State Economic Commission
	Committee for Introduction of new Techniques
	Committee for Construction Affairs
	Committee for State Security
TOTAL 65 MEMBERS	

1 JULY 1957	
CHAIRMAN	
FIRST DEPUTY CHAIRMEN (6)	
DEPUTY CHAIRMAN (1)	
SOVIET MINISTERS (All-Union and Union Republic)	CHAIRMEN OF:
	Gosplan
	Gosbank
	State Committee on Labor and Wages
	Scientific-Technical Committee
	Committee for Construction Affairs
	Committee for State Security
	Central Statistical Administration
	Union Republic Councils of Ministers
	Deputy Chairmen and Branch Heads of Gosplan
TOTAL 49 MEMBERS	

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of major branches of Gosplan will sit on the Council. Finally, the chairmen of the councils of ministers of the 15 union republics will have ex officio membership on the Council. Gosplan receives greater authority and power by seating not one but a number of its officials on the Council. By granting membership to chairmen of union republic governments, the Council should be able to make more realistic decisions on many republic matters. Politically, such representation may counteract the anticipated regional autarky to some extent by enabling the heads of the republic governments to gain a "national" point of view. The change in the composition of the Council of Ministers may result in closer coordination of its planning and directing functions and also in a better understanding of the economic problems of the union republics and of the various regions.

In the area of science the State Committee on Technology (Gostekhnika) was abolished and a new State Scientific-Technical Committee created. The new Committee, which is to have a very small permanent staff (and which will rely chiefly on temporary committees of qualified engineers and scientific workers for support), will have two main functions: (1) to advise Gosplan on scientific-technical plans and (2) to supervise the introduction of new scientific and technological developments throughout industry. Differing from the old Gostekhnika, the new committee will be smaller at the center and more decentralized. If deemed expedient, there will be scientific-technological committees organized at the levels of the union republics and the economic regions. These committees have already been established in some republics and regions.

In August 1957 the Ministry of State Control was abolished, and in its place a Commission of Soviet Control was established. The new Commission has been given authority to check on and to insure fulfillment of government decisions on economic problems. The abolished Ministry of State Control also had these functions, however. Perhaps the abolition was necessary, in Khrushchev's view, to counteract Molotov's influence in the government. (Molotov had recently headed the Ministry of State Control.) Apart from this, Khrushchev may have needed a new, more highly centralized organization than the old Ministry to maintain an economic check on the 105 regional economic councils.

The role of central ministries was drastically reduced. Many of them were abolished, and six were merged. The remaining ministries "will be fundamentally reorganized," according to

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Khrushchev. He hints, furthermore, that they too will be abolished after the transition of economic management from a high degree of centralization to one of limited decentralization is accomplished. 4/

Apparently the remaining central ministries will no longer manage industrial enterprises directly. Instead, the various economic councils existing in the new economic regions will be responsible for this function. Henceforth the ministries (both on the central and on the republic level) will be confined to over-all planning for their respective industries and will plan through the economic councils.\* One Soviet ministerial official stated that under the reorganized structure the Ministry of the Radiotechnical Industry is to plan for the industry on a broader scale, to insure cooperation between regions, and to prevent duplication in production among enterprises when radiotechnical equipment is concerned. 5/ The general effect of this shift in control will be that central ministries will operate with fewer staffs in Moscow and, presumably, will be able to devote more time to the important planning problems of their industries. Operational decisions for enterprises will be made at an administrative level much closer to the scene of operations than Moscow. The result should be more knowledgeable and more rapid decision-making.

B. Planning Apparatus.

The Soviet decree of 10 May 1957 abolished the State Economic Commission, which was attached to the Council of Ministers, and transferred its functions to Gosplan. The Commission, created in early 1955, was responsible for annual planning. As recently as late 1956 it underwent a reorganization which widened its authority to make it the top-level coordinator of the Soviet economy. At this time, Pervukhin (who was First Deputy Chairman of the Council of Ministers)\*\* was appointed head of the Commission, and 6 new deputies were appointed, 5 of whom had been deputy chairmen of the Council of Ministers. The official explanation for the abolition of the Commission is that its functions (current planning) will be carried out by Gosplan of the USSR and by the Gosplans of the republics. 6/ There appear to be other reasons for the abolition, however. In his

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\* Apparent exceptions to this rule are the Ministries of Transport Construction, the Maritime Fleet, Transportation (Railroads), Geology and Mineral Conservation, and Medium Machine Building.

\*\* Pervukhin is now head of the new State Committee for Foreign Economic Relations. This committee replaced the Main Administration for Economic Relations.

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speech to the Supreme Soviet, Khrushchev criticized the Commission for delays in drawing up the annual plans, for inconsistencies in the plans from one year to the next, for permitting unreasonable expenditures, for authorizing unneeded capital investments, and for general inflexibility in meeting new production requirements which arise in the course of the year. 7/

The decree entrusted Gosplan with "all-round study" of the economic requirements of the country. Gosplan has also been empowered to exert control over and provide a check on the plans of the union republics as well as those of the economic regions. Specifically, Gosplan is responsible for compiling short- and long-range plans, for insuring a well-planned regional distribution of enterprises, for supervising the technical development of individual branches of industry, and for improving the quality of all plan targets. In conjunction with the planning commissions of the union republics, Gosplan has been given authority to make alterations in plans from time to time. Gosplan has also been simplified in structure and now has 9 general economic departments, 23 industrial departments, and a council of technical and economic experts. 8/

Under the new decree, one of the main problems to be faced by the new economic management is that of coordinating the economies of the various parts of the country (chiefly the 105 economic regions) in order to achieve a functioning, integrated unit. Gosplan will undertake part of this coordination. Among its new functions will be that of planning interrepublic supplies of raw material, fuel, electric power, equipment, and consumer goods. Also, during the transition period (undefined as to duration), Gosplan of the USSR and the republic Gosplans will have to retain control over the allocation of some commodities for certain types of production. Machine tools, for example, fall into the category of commodities which will be centrally allocated. Although such central control does not follow the trend of the past few years (reducing the amount of detailed planning within Gosplan of the USSR), its retention is deemed necessary by Khrushchev during the transition of the economy from a highly centralized to a more decentralized status.

The planning process under the new structure is quite similar to that followed under the previous ministerial system. Draft plans, worked out at the plants, are submitted to the council of each economic region. The economic council, in conjunction with the local government, drafts the regional plan for submission to the republic

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government and the republic Gosplan. In turn, the draft plan then goes to the Council of Ministers of the USSR and to Gosplan of the USSR. Finally, Gosplan prepares a single state plan for submission to the Council of Ministers. 9/

Among Gosplan's varied duties, one of the most important and difficult will be that of general coordinator of the development of the 105 economic regions. To assist Gosplan in its many tasks, Khrushchev stated that the best industrial and construction specialists, economic experts, and administrators previously attached to the ministries will be assigned to it. The First Deputy Chairman of Gosplan is Kosygin, formerly a First Deputy Chairman of the Council of Ministers of the USSR. Another former Deputy Chairman of the Council of Ministers is now Deputy Chairman of Gosplan. In addition, four former ministers of the USSR have been appointed to the staff of Gosplan. 10/ Finally, the deputy chairmen and the heads of the principal departments of Gosplan will have, as mentioned above, the rank of minister, which carries with it membership on the Council of Ministers.

C. Role of the Union Republics.

In any genuine delegation of managerial authority in the USSR, the union republics would be expected to exercise an important role in directing the economy. This development appears to be one of the highlights in the current reorganization. Since 1953, Soviet leaders have been granting to these governments somewhat more authority in such fields as the allocation of budgetary expenditures, the responsibility for planning, the supervision of ministries, and the direction of industrial enterprises. For example, since mid-1956 the republics have been given responsibility for all automotive and river transportation. In May 1957, Khrushchev stated that it has become imperative to expand the authority of the republics even more.

Through their councils of ministers the union republics have power under the new decree to abolish or create republic ministries and to transfer enterprises formerly subordinate to them to the jurisdiction of regional economic councils or to local governments. In other matters of reorganization on the central level the republics will carry some influence simply because they now are represented on the Council of Ministers of the USSR. More important, the republics are responsible for establishing economic regions

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within their boundaries, subject to later approval by the Council of Ministers of the USSR. The republics will have direct supervision over the regional economic councils and will have power to overrule any decisions made by these councils. The government of the republic, therefore, now occupies the role of general manager over virtually all industry and construction within its borders and is the over-all regional coordinating authority for important operational decisions.

D. Regional Economic Councils.\*

The main provision of the Soviet decree of 10 May 1957 was the creation of administrative councils in each of the newly established economic regions. The councils are the managerial bodies of the regions, and each has a chairman, deputy chairmen, and various members.\*\* The structure of the councils, however, will not be the same in all cases. The regional economic council of the city of Moscow has functional administrations (such as those for metallurgy and chemistry), trusts (such as that for medicine), and scientific research institutes as well as general and special bureaus for construction.\*\*\* This organization is somewhat similar to that of an industrial ministry -- one plant director from Leningrad argued that the proposed structure of the economic council of Leningradskaya Oblast would be no different from the old ministerial structure, with its shortcomings of duplication and numerous intermediate links of administration. 11/

The scope of responsibility of the councils was indicated by Khrushchev when he stated as an example that the economic council of the city of Moscow will control enterprises which produced goods worth more than 55 billion rubles in 1955. He noted also that the economic council of Kemerovskaya Oblast will manage enterprises having a greater output than all the enterprises of the former Ministry of Tractor and Agricultural Machine Building. The economic council of Komi ASSR will manage enterprises employing about 100,000 workers and producing goods worth 3.5 billion rubles annually. 12/

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\* The Soviet name for this type of organization is Council of National Economy (Sovet Narodnogo Khozyaystva -- Sovnarkhoz).

\*\* See Figure 5, following p. 12.

\*\*\* See Figure 6, following p. 12.

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Functionally, the councils will direct all enterprises formerly under the jurisdiction of the abolished national ministries and even enterprises technically within the industries of some of the remaining All-Union ministries (such as the Ministry of the Aviation Industry). Some enterprises of nonindustrial ministries (the number as yet undetermined) will be controlled by the councils. Construction sites also will be directly managed by the councils, according to Khrushchev. To insure adequate supervision of all these functions, the councils will be granted "every power" which they need and will have the "rights" of union ministries. 13/

E. Role of Local Government.

Local government in the USSR (oblast, rayon, and city) gains importance under the new economic structure. The Soviet decree of 10 May 1957 provides for the transferral of a number of enterprises and organizations formerly subordinate to republic ministries to the economic councils or to the local governments. A number of enterprises and organizations concerned with consumer goods and trade recently have been made subordinate to local governments. In the Moldavian SSR the Chairman of the Council of Ministers recommended that the executive committees of a number of rayon and city governments should have additional sections for local industries in order to direct the enterprises recently transferred to them. In this connection an administration for local industry is to be organized and will be attached to the Council of Ministers of the Moldavian SSR. 14/

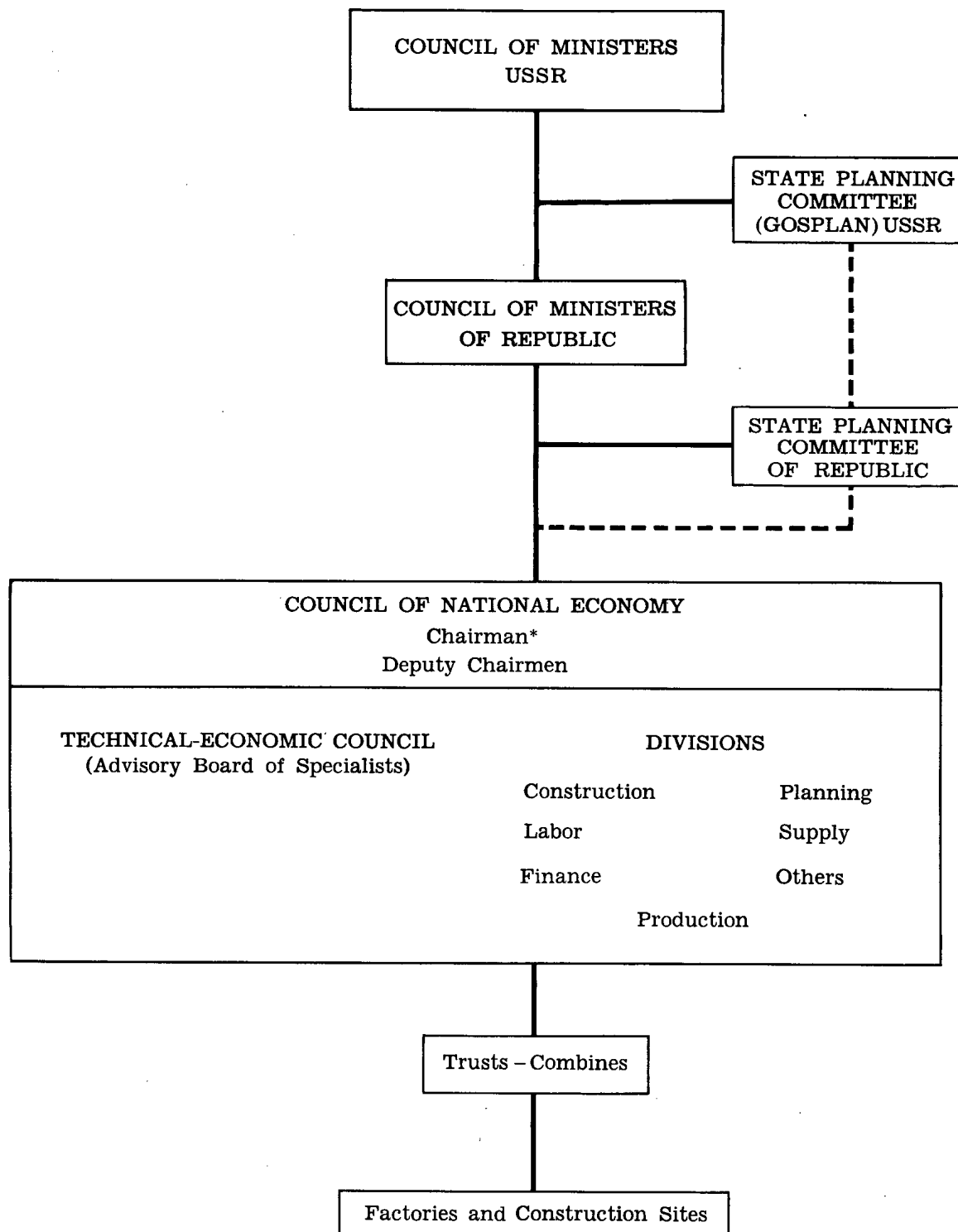
IV. New Economic Regions and Problems of Implementing the Reorganization.

The USSR defines an economic region as that part of a territory which is distinguished from other parts by its specialization and the integrated development of its economy and which embodies a "territorial working unit." 15/ This definition, obviously, does not apply to all of the 105 new economic regions in the USSR -- at least not from the point of view of specialization and integrated development -- but it does establish a framework within which to discuss regionalization.

One problem involved in decentralizing certain phases of the operational management of factories is the necessity for transferring personnel from the central and republic bureaucracies to

Figure 5

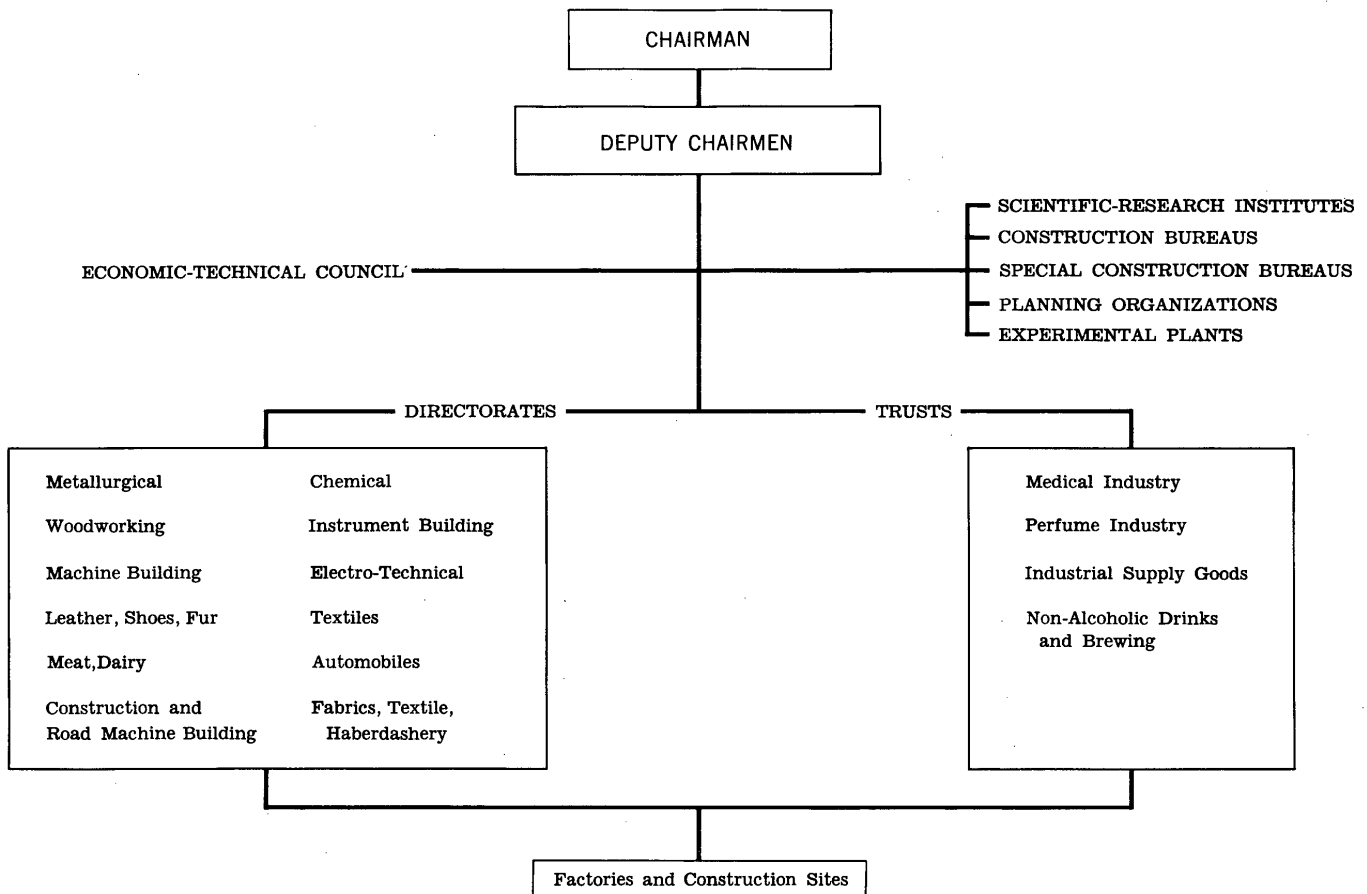
# ORGANIZATION OF A TYPICAL REGIONAL ECONOMIC COUNCIL, IN THE USSR 1 JULY 1957



\*May have Ministerial status with a seat  
on Republic Council of Ministers.

Figure 6

USSR  
STRUCTURE OF THE ECONOMIC COUNCIL OF THE CITY OF MOSCOW  
1 JULY 1957



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the economic councils. The membership of the councils is made up of former ministerial and central governmental personnel as well as local officials.

The size of the economic council at Krasnoyarsk was expected to reach 750 persons. Of this number, 174 were "invited" from Moscow. The economic council at Irkutsk expected 79 people from Moscow to join its staff. Approximately 50 Moscow engineers and planners were invited to join the economic council of the Moldavian SSR. 16/ Some of the other councils, however, are staffed almost entirely from inhabitants of the region itself. Thus in the economic council at Ivanov, only 15 of the 485 people came from central ministries and departments. 17/ The staffs of the economic councils, then, come from central and republic ministries, republic governments, various factories, and staffs of local governments and from Party organizations and an undefined category of "local people."

Some of those transferred from the central ministries assumed top positions in the regional councils. The new head of the economic council at Krasnoyarsk is P.F. Lomako, the former Minister of Non-ferrous Metallurgy of the USSR. Another high official who has been identified as heading an economic council is Petukhov of the economic council of the city of Moscow (former Minister of Heavy Machine Building of the USSR). 18/

The size of the staffs of the economic councils varies widely. For example, according to Soviet announcements, there are 190 staff employees of the economic council at Amur; 500, at Khabarovsk; 750, at Krasnoyarsk; 770, of the Estonian SSR; and 3,000, of the city of Moscow. One interesting Soviet claim is that the economic council of the Moldavian SSR, which took over the functions of some republic ministries, has a staff only 60 percent as large as the total staffs of the abolished ministries. 19/ This claim may be misleading in that some of the functions of the abolished ministries may now be performed by organizations other than the economic council of the Moldavian SSR, such as the Moldavian Council of Ministers of the Moldavian Gosplan.

The Soviet decree of 10 May 1957 provided for the establishment of 92 economic regions, with an administrative council directing the economic activity of each. The regions were to be distributed as follows: 68 in the RSFSR, 11 in the Ukraine, and 1 in each of the remaining 13 union republics. Subsequently, meetings of supreme



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soviets of several of the republics increased the number of regions in the RSFSR by 2, in Kazakh SSR to 8, and in Uzbek SSR by 3 -- making a total of 105 in all.\*

The chief rationale for the reorganization, as mentioned above, is that the economy in its present stage of development can more easily be strengthened and expanded with an organizational structure based on regional rather than functional lines. The two main factors which govern the establishment of an economic region, according to one Soviet writer, are production specialization and coordinated economic development. 20/ The region must have either the present or the potential capacity to meet these two requirements. It is doubtful that all 105 regions can meet these requirements now or in the near future. A more widely adopted criterion in the establishment of the regions was that of following republic, kray, or oblast administrative boundaries.

Gosplan has for a number of years divided the entire USSR into 12 large economic regions for planning purposes.\*\* Under the new decree the USSR is divided into 105 smaller economic regions. One of the chief problems which may arise under the new structure, according to Khrushchev, is that of autarky developing in some of the new regions. For example, a number of economic councils in the Urals area reportedly held back shipments of building materials to enterprises under the jurisdiction of the economic council at Omsk on the pretext that the materials were needed in the Urals. 21/ Another case concerned a plant director in Yerevan who was reprimanded for accumulating materials to tide him over during the period of reorganization. Other examples include a stoppage of goods being shipped to Omsk from the economic councils at Sverdlovsk and Chelyabinsk, a failure of the Gor'kiy Automatic Lathe Plant in Kiev to ship materials to enterprises at Zaporozh'ye, and a refusal by the Petrovskiy plant in Dnepropetrovsk to ship goods to the Mobile Hoisting Equipment Plant under the jurisdiction of the economic council at L'vov. Finally, the economic council at Zhitomir was criticized for restricting shipments of hops to its neighboring regions. 22/ Failures to meet shipment deadlines, however, cannot in themselves be attributed to the new system. Delays of this nature have occurred in the past and were a motivating cause of the present reorganization. Even if

\* See Figure 7, inside back cover.

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autarky is not permitted to develop to any serious extent, a certain amount of hoarding of materials can be expected as a normal outgrowth of the newer "regional" approach. The central government has already taken measures to check any such tendencies, however -- for example, a heavy fine was imposed on one guilty plant director.

Coordination of supply, production, and distribution among the various regions of the country may be, in the long run, the key to the successful working out of the new system. Coordination as such is not new to Soviet officials. For years, Gosplan has been responsible for regional planning, for eliminating excessive cross-hauling, for guidance in the location of enterprises within the several areas, and for planning the cooperation of enterprises situated in the same over-all area. To accomplish these objectives, departments of Gosplan (chiefly the Department of Enterprise Location and District Planning) have collaborated with the Gosplans of the republics. 23/ Furthermore, economic ministries have long coordinated many problems arising within their respective spheres -- problems such as supply, production, and distribution of commodities among enterprises and ministries and even among geographical areas.

The current reorganization, however, will require much more than simple coordination between ministries and republics. Apart from the original 12 economic regions into which the USSR was divided by Gosplan for planning purposes, there are now 105 smaller economic regions, each with its own administrative council which will take over the direct management of many economic enterprises. There are also numerous local governments (ASSR's, krays, oblasts, rayons, and cities) which will manage a number of other economic enterprises. Moreover, each Soviet republic will have some ministries whose function will be to plan and coordinate the production of certain specialized enterprises. The governments of these republics will be responsible for supervising the planning and management of all economic regions and local governments within their boundaries.\* Finally, some 15 national economic ministries will continue to supervise in a broad manner the planning and operation of their respective industries from Moscow. The resulting complexity of organization poses a problem in coordination that in practice may prove insurmountable, a complexity involving hundreds of thousands

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\* Kazakh SSR, for example, established a department for coordination and specialization of production for the nine economic councils within its borders.

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of enterprises, more than 100 economic regions, numerous ministries on the republic and central government levels with subordinate organizations, hundreds of local governments, and 15 union republics with their own Gosplans as well as Gosplan of the USSR.

There are other problems which may arise as a result of the new economic structure. If the central bureaucracy resents the breakup and scattering of its Moscow-centered empire, it may not fully contribute to the success of the new system. Solving the problem of a possible emotional attachment to the old system by the central bureaucracy is in itself not sufficient. The key to the problem of bureaucratic cooperation may lie instead with the middle and lower level economic managers. If the new structure enhances their influence and prestige, as well as their effectiveness, and if enterprise directors, for example, are freed from some of the more odious restrictions on their operation (such as the arbitrary limitation of suppliers), it may be assumed that this level of management, at least, will be in a sufficiently cooperative mood to help make the new system a success.

Enterprise directors may face new production and marketing problems which are peculiar to the new structure. According to one Soviet official, the output of consumer goods will now more closely reflect demand and cost considerations. In some cases, he contends, a plant director may decide not to produce a commodity if the established price does not cover cost plus a measure of profit.\* Apparently, this official continues, the decision as to what will be produced (at least for some above-plan commitments) will be left to the director.\*\* If he decides to produce a commodity which a central marketing organization will not accept, the director is forced to dispose of the commodity himself. 24/ At this point it would seem appropriate for the regional economic council to assist the director in distributing

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\* Prices for consumer goods are recommended by the producing plant and then are transmitted through the regional economic council to the Ministry of Trade of the USSR and Gosplan of the USSR. The latter two organizations jointly set the final commodity price.

\*\* As early as 1955, plant directors had been given authority to accept independent orders for production if such orders did not interfere with plan fulfillment. Also, the director was authorized to alter quarterly plant delivery schedules in agreement with the customer.

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his surplus production. In this connection the economic councils of several republics have departments for material-technical supplies and distribution. The task of these departments will be to supply raw materials and to distribute finished goods. Evidently each republic will also establish its own organization for supply and distribution to replace the main administrations for sales which were attached to the former central ministries. In the economic region of Ivanovskaya Oblast, each branch administration of the economic council will retain small supply groups for purposes of continuity. When, however, the council's new department for material-technical supply begins functioning, the necessity for the supply groups will end. 25/ [ ] sales administrations of the former ministries will, for the time being, be set up under Gosplan of the USSR. 26/ This arrangement would seem to be a transitional measure which would facilitate the conversion from the former centralized marketing system to a less centralized one.

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The new managerial system seeks five major achievements which were impossible under the former structure: (1) to reduce the size of the central bureaucracies (in Moscow and the republic capitals), (2) to stimulate the initiative of lower level managerial officials, (3) to speed up operational decision-making throughout the various levels of management, (4) to develop more precise information on the available and potential capacity of the various industries, and (5) to enable central officials to make more reasonable decisions. Perhaps even the Soviet leaders do not expect these accomplishments to be met fully by the new structure.

A few indications of progress toward these goals have been noted. In regard to the problem of interregional supply, the chairman of the economic council of the Latvian SSR stated that he had given "strict" instructions to all enterprises in his region to fulfill orders from other regions first and orders from within the region second. 27/ The economic council of Yakutskaya ASSR has already abolished a superfluous supply trust and other unneeded offices in one rayon, has received 25 million additional rubles from the Council of Ministers of the RSFSR for various public service and housing construction in enterprises, and has allocated 3 million additional rubles to the Aldan Mica Combine in order to accelerate the mining of mica. 28/ The economic council of Sakhalinskaya Oblast has consolidated the management of various construction sites and has made procurement and financial decisions on the spot -- decisions which formerly had to be made in Moscow. In one case the

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chief of an oil union previously had to travel to Moscow to present financial questions. Since the reorganization this chief has gone instead to the regional headquarters in Yuzhno-Sakhalinsk, where, in one case, the questions were decided in 20 minutes. 29/

There are other examples of more rapid operational decision-making which have resulted from establishment of the economic councils. The Balashov Yarn Factory was unable to get a satisfactory decision on one of its problems when the question was referred to the former main administration and to the ministry. After the creation of the economic council of Balashovskaya Oblast the council made the decision at once. A complex question involving interregional planning and production of refractory materials between factories of the economic region of Zaporozhskaya Oblast and another region, previously unsolved, was decided in short order at the offices of the economic council at Zaporozh'ye. In another case a commodity assigned for production to 2 different factories of 2 different ministries was reassigned to only 1 factory by the newly created economic council of the Armenian SSR. Administrative, technical, and production specialists of the economic councils also frequently assist factory managements in solving some of their problems, although the economic councils have been criticized for sending to the factories too many orders, directions, and instructions. 30/

The new Soviet system of economic management will in all probability facilitate production and help to stimulate the rate of industrial growth, although the rate of growth cannot as yet be determined. Any improvement will be accomplished chiefly by more efficient use of natural resources and productive capacity, by reducing fixed costs, by speeding up production management, by facilitating more rapid decision-making at the production level, and by broadening the creative initiative of lower level officials.

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